

Message Text

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HONG KONG FOR TREASURY REPRESENTATIVE

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SUBJECT: CENTRAL BANK RESCUES GENERAL BANK

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1. THE SUSPENSION OF MONEY MARKET OPERATIONS ON FRIDAY, DECEMBER 17, BY FILCAPITAL BECAUSE OF AN "ILLIQUID POSITION" WAS FOLLOWED BY A RUN ON ITS PARENT, GENERAL BANK AND TRUST COMPANY. GENBANK WAS ALREADY IN A BAD SITUATION BECAUSE OF THE POOR QUALITY OF ITS CREDIT PORTFOLIO WHICH CONSISTED MOSTLY OF LOANS TO AFFILIATED COMPANIES. IN ADDITION,, REPORTS WERE CURRENT THAT FILCAPITAL HAD BEEN BORROWING HEAVILY FOR SEVERAL WEEKS FROM GENBANK, REPORTEDLY SECURED WITH MORTGAGES ON FIVE OF THE 13 FLOORS OF THE FILCAPITAL BUILDING WHICH THE PHILIPPINE COMMERCIAL AND INDUSTRIAL BANK IS NEGOTIATING TO PURCHASE FOR 125 MILLION PESOS. IN ORDER TO PROTECT ITSELF, GENBANK FINALLY HAD TO SAY NO TO FILCAPITAL, RESULTING IN THE LATTER'S SUSPENSION OF OPERATIONS.

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2. ON SUNDAY EVENING, DECEMBER 19, CENTRAL BANK GOVERNOR LICAROS ASSURED DESPOSITORS AND THE FINANCIAL COMMUNITY THAT THE CENTRAL BANK WOULD GRANT ADEQUATE FINANCIAL ASSISTANCE TO GENBANK TO MEET ITS LIQUIDITY PROBLEMS. THE NEXT EVENING, DECEMBER 20, THE MONETARY BOARD APPROVED A PACKAGE OF MEASURES WHICH

REPORTEDLY INCLUDED 100 MILLION PESOS IN LOANS FROM THE CENTRAL BANK, 16 MILLION PESOS IN EMERGENCY ADVANCES, AND AUTHORITY TO LAND BANK OF THE PHILIPPINES (GOP-OWNED BANK) TO TAKE AN EQUITY POSITION IN GENBANK UP TO TWO-THIRDS OF THE OUTSTANDING VOTING STOCK. GENBANK HAD ALREADY EXECUTED IRREVOCABLE PROXIES FOR LAND BANK TO CONTROL TWO-THIRDS OF THE VOTING RIGHTS. THE LAND BANK WOULD LIKELY PUT IN AN ADDITIONAL 14 MILLION PESOS BUT FURTHER EQUITY WOULD PROBABLY BE THROUGH CONVERSION OF THE CENTRAL BANK LOANS.

3. THE CENTRAL BANK HAS PUT OUT A PRESS RELEASE SEEKING TO REASSURE EVERYONE THAT THE SOLVENCY OF GENBANK IS NOT IN QUESTION AND THAT THE BANK HAS BEEN OPERATING PROFITABLY AND WITHIN ITS LEGAL RESERVE REQUIREMENTS. THE FOREGOING POINTS HAVE BEEN EMPHASIZED BY THE CENTRAL BANK IN EXPLAINING ITS DECISION TO INTERVENE IN CONTRAST TO ITS INACTION IN 1974 WHEN THE CONTINENTAL BANK COLLAPSED.

4. COMMENT. THE CENTRAL BANK RESCUE IS ACTUALLY DESIGNED TO AVOID THE DISRUPTION TO THE BANKING INDUSTRY WHICH THE COLLAPSE OF THE CONTINENTAL BANK IN 1974 CAUSED AND WHICH A SIMILAR COLLAPSE OF GENBANK WOULD ENTAIL. ALL OF THE NON-BANK INSTITUTIONS HAVE BEEN UNDER PRESSURE, AND THE SMALLER BANKS WERE BEING SUBJECTED TO RUNS. THE STRONGER BANKS, PARTICULARLY THE FOREIGN ONES, BENEFITED FROM THE SHIFT IN DEPOSITS. THE SITUATION IS NOW REASONABLY CALM, AND GENBANK WILL SURVIVE BUT UNDER GOVERNMENT OWNERSHIP. IN THE MEANTIME, FINANCE COMPANIES WILL FIND THEMSELVES STRAPPED AND WILL HAVE TO BORROW FROM THE STRONGER BANKS. THE GENBANK CASE AGAIN ILLUSTRATES THE PITFALLS OF LIMITED OFFICIAL USE

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PHILIPPINE FAMILY-OWNED BANKING INSTITUTIONS LENDING TO FAMILY-OWNED COMPANIES.
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